



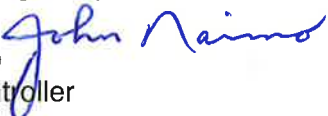
JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

October 26, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **LAC+USC HEALTHCARE NETWORK - TRUST FUNDS, REVOLVING FUNDS,
COMMITMENTS, AND ACCOUNTS PAYABLE FOLLOW-UP REVIEW**

We have completed a follow-up review of LAC+USC Healthcare Network's (LAC+USC or Facility) progress in implementing the 11 recommendations from our January 2011 report on the Facility's trust funds, revolving funds, commitments, and accounts payable. LAC+USC's response to our 2011 report indicated that they were in the process of implementing all 11 recommendations. However, during our follow-up review, we noted that LAC+USC has only implemented one (9%) recommendation. LAC+USC has partially implemented seven (64%) recommendations, and has not implemented the remaining three (27%) recommendations. LAC+USC's implementation status for the 11 recommendations is included as Attachment I.

We discussed the results of our follow-up review with LAC+USC management. LAC+USC's attached response (Attachment II) indicates general agreement with our findings. We thank LAC+USC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:JU

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Department of Health Services
Mitchell H. Katz, M.D., Director
Daniel Castillo, Chief Executive Officer, LAC+USC
Mark Corbet, Chief Financial Officer, LAC+USC
Tobi L. Moree, Chief, Audit & Compliance Division
Public Information Office
Audit Committee

**LAC+USC HEALTHCARE NETWORK
TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS
PAYABLE FOLLOW-UP REVIEW**

Background and Scope

In January 2011, we completed a review of LAC+USC Healthcare Network's (LAC+USC or Facility) trust funds, revolving funds, commitments, and accounts payable. The purpose of our review was to determine whether the Facility complied with County Fiscal Manual (CFM) requirements. Our report identified 11 recommendations for improving fiscal processes and internal controls.

We have completed a follow-up review of the Facility's progress in implementing the 11 recommendations from our report. Our follow-up review included interviewing LAC+USC management and staff, examining records, and evaluating oversight.

Recommendation Implementation Status

LAC+USC fully implemented one (9%) recommendation, partially implemented seven (64%) recommendations, and has not implemented three (27%) recommendations. The following are the 11 recommendations and their implementation status.

Trust Funds

Recommendation 1

LAC+USC management review trust accounts and sub-accounts annually, keep documentation of each trust account's purpose and authority, close accounts/sub-accounts if the Facility cannot determine the account's purpose or if the account is no longer needed, and appropriately dispose of any remaining balances.

Current Status: PARTIALLY IMPLEMENTED

Prior to our follow-up review, LAC+USC closed eight trust accounts/sub-accounts that were identified during our original review that were fully depleted, or that they determined were no longer needed. LAC+USC currently has 20 trust accounts, including their Departmental Miscellaneous Trust Account (TK7-7212), which includes 20 smaller Departmental trust accounts, referred to as sub-accounts. As of June 30, 2014, LAC+USC's 39 trust accounts/sub-accounts totaled approximately \$1.5 million.

During our current review, we noted that 17 (44%) of the 39 trust accounts/sub-accounts, totaling \$720,100, have been inactive for an average of six years. Eleven (65%) of the 17 accounts were noted as inactive in our original review, including the largest account, the Emerging Technologies Fund. As of June 30, 2014, this account had a balance of \$607,500 and no expenditure activity since it was established in 1989.

In addition to the 17 accounts highlighted above, we identified one additional open trust account with no balance that LAC+USC indicated was no longer needed. LAC+USC also could not provide documentation indicating the purpose and authority for six (15%) of the 39 trust accounts/sub-accounts.

Recommendation 2

LAC+USC management develop spending plans for trust accounts that are still needed, ensure that trust accounts are used as intended, and maintain documentation to support all transactions.

Current Status: PARTIALLY IMPLEMENTED

As indicated in LAC+USC's response to our original review, LAC+USC intended to develop spending plans for their trust accounts/sub-accounts, and close and disposition accounts that were no longer needed. LAC+USC indicated that they developed spending plans for some of the trust accounts/sub-accounts, and closed the accounts that they determined were no longer needed. However, as part of our follow-up review LAC+USC was not able to provide spending plans for most of the accounts. In addition, as noted above, although LAC+USC closed eight trust accounts/sub-accounts, 17 of the Facility's accounts, identified in our current review, were inactive.

We also reviewed 26 transactions from 14 of the active trust accounts/sub-accounts from Fiscal Year (FY) 2013-14, and determined that the transactions were appropriate and consistent with the trust account's/sub-account's purpose and authority. LAC+USC properly maintained documentation to support these transactions.

Recommendation 3

LAC+USC management keep detailed subsidiary ledgers for all trust accounts and sub-accounts.

Current Status: PARTIALLY IMPLEMENTED

Our original review noted that LAC+USC did not maintain detailed subsidiary ledgers for their TK7-7212 trust account, or for 24 of its 28 sub-accounts. During our follow-up review, we noted that LAC+USC has made significant improvement in maintaining subsidiary ledgers for their trust accounts and sub-accounts, but still noted that LAC+USC did not maintain detailed subsidiary ledgers for four (10%) of the 39 trust accounts/sub-accounts, or for their TK7-7212 trust account, as a whole. As a result, these accounts were not reconciled to eCAPS, as required.

Recommendation 4

LAC+USC management reconcile trust accounts and sub-accounts monthly/quarterly, as required, ensure that reconciliations are appropriately

reviewed and approved, and that unreconciled differences are promptly investigated and resolved.

Current Status: NOT IMPLEMENTED

We requested 44 monthly reconciliations from the 22 active trust accounts/sub-accounts from FY 2013-14, and noted that 39 (89%) reconciliations had not been completed. We also noted that a reconciliation of the TK7-7212 trust account, as a whole, has not been completed. Of the five reconciliations that were completed, two were reconciled quarterly, instead of monthly, as required for an account balance exceeding \$5,000 annually. In addition, we noted that one of the reconciliations was completed nine months late, resulting in LAC+USC not identifying and correcting in a timely manner a \$32,900 transaction that had been deposited into a wrong account.

Patients' Personal Deposits

Recommendation 5

LAC+USC management ensure Cashiers deposit patients' personal funds intact and that refunds are made from the revolving cash trust fund.

Current Status: PARTIALLY IMPLEMENTED

LAC+USC maintains a Patients' Personal Deposit (PPD) trust account to hold patients' money for safekeeping when they are admitted to the Facility. In April 2013, LAC+USC issued a memorandum reminding Cashier staff of the CFM requirement to deposit all patients' personal funds intact, and to not make disbursements from collections prior to deposit. However, we noted that on occasion, Cashiers make refunds directly from patient trust collections when the imprest cash fund established for patient refunds is not sufficient to cover a cash refund.

Recommendation 6

LAC+USC management ensure that Cashiers document the reasons for all voided transactions and obtain supervisory approval for voided receipts.

Current Status: PARTIALLY IMPLEMENTED

In August 2010, LAC+USC issued a memorandum reminding Cashier staff of the procedures for canceling receipts, including writing the reason for the cancellation and obtaining supervisory approval. We reviewed all nine voided PPD trust account withdrawal receipts from LAC+USC's various Cashier locations, identified during November 2013 through August 2014 and February 2015 through March 2015, and determined that the reasons provided by the Cashiers for the voided receipts appeared reasonable (e.g., receipt was incorrectly completed, patient requesting refund did not have the appropriate identification to receive the refund, etc.). However, we noted that

LAC+USC did not annotate these reasons on all of the receipts or obtain supervisory approval for any of the voided transactions, as required.

Recommendation 7

LAC+USC management transfer the \$30,400 in unclaimed funds to the Treasurer and Tax Collector (TTC), and periodically review the Patients' Personal Deposit trust account to identify and transfer additional unclaimed funds to TTC.

Current Status: IMPLEMENTED

We verified that LAC+USC transferred the \$30,400 in unclaimed funds noted in our original report to TTC, as of September 2010. LAC+USC indicated that it is their practice to review unclaimed funds every six months, depending on workload and staff availability. We noted that LAC+USC reviewed and transferred unclaimed funds an average of every two months between June 2014 and March 2015.

Revolving Funds

Recommendation 8

LAC+USC management periodically review all revolving funds and revolving cash trust funds, and close funds that are no longer needed.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that LAC+USC had one revolving cash trust fund used for employee cafeteria card deposits totaling \$2,000 that was inactive and was no longer needed by the Facility. LAC+USC appropriately closed this revolving fund in March 2011. However, based on our discussions with LAC+USC Expenditure Management staff, they currently do not review all revolving funds and revolving cash trust funds periodically due to staffing limitations and time constraints. We identified one Materials Management revolving fund bank account totaling \$1,000 that has been inactive since August 2012, that the Facility indicated was no longer needed and has yet to be closed.

Recommendation 9

LAC+USC management ensure staff investigate and resolve the bank account reconciling items appropriately.

Current Status: NOT IMPLEMENTED

We reviewed the most current reconciliations available for LAC+USC's three revolving fund bank accounts, and noted that 63 checks have been outstanding for approximately seven months to 12 years, totaling \$4,400. Twenty-four (38%) of the 63 outstanding

checks, totaling \$1,530, were outstanding since our original review. In addition, we noted that LAC+USC has not appropriately reconciled the three bank accounts to the funds' imprest amounts.

Commitments and Accounts Payable

Recommendation 10

LAC+USC management re-instruct fiscal staff on establishing and canceling commitments and accounts payable, and monitor for compliance.

Current Status: PARTIALLY IMPLEMENTED

As indicated in LAC+USC's response to our original review, in June and August 2010 LAC+USC re-instructed Expenditure Management staff on establishing and canceling commitments and accounts payable, and monitoring for compliance.

We reviewed 20 commitments, totaling \$3.9 million, and noted that LAC+USC should have canceled or reduced all, or a part of, eight (40%) commitments, totaling \$427,100, since they were no longer needed by the Facility. In addition, five (25%) commitments, totaling \$164,100, should have been established as accounts payable, since they were for goods and services received in the prior fiscal year.

We also reviewed 10 payments, totaling \$34.5 million, charged against current year encumbrances during FY 2014-15, and noted that one (10%) payment, totaling \$34,400, was for goods that were ordered and received in the prior fiscal year, and should have been established as an accounts payable.

Internal Control Certification Program

Recommendation 11

LAC+USC management conduct Internal Control Certification Program (ICCP) reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

Current Status: NOT IMPLEMENTED

LAC+USC's FY 2013-14 ICCP did not identify all control weaknesses we noted above. Many of the control weaknesses should have been identified when LAC+USC completed their ICCP.



Los Angeles County
Board of Supervisors

Hilda L. Solis
First District

Mark Ridley-Thomas
Second District

Sheila Kuehl
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

*To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles County
residents through direct services at
DHS facilities and through
collaboration with community and
university partners.*



www.dhs.lacounty.gov

September 30, 2015

TO: John Naimo
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF
TRUST ACCOUNTS, REVOLVING FUNDS,
COMMITMENTS AND ACCOUNTS PAYABLE FOLLOW-
UP REVIEW – LAC+USC HEALTHCARE NETWORK**

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its follow-up review of Trust Accounts, Revolving Funds, Commitments and Accounts Payable at the LAC+USC Healthcare Network. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

If you have any questions or require additional information, please let me know or your staff may contact Loretta Range at (213) 240-7755.

MHK:GP:lr

Attachment

c: Daniel Castillo
Gregory C. Polk
Allan Wecker
Mark Corbet
Suzanne Garcia
Loretta Range

COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER TRUST ACCOUNTS, REVOLVING
FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE
FOLLOW-UP REVIEW
LAC+USC HEALTHCARE NETWORK (LAC+USC)

Auditor-Controller Recommendation #1:

LAC+USC management review trust accounts and sub-accounts annually, keep documentation of each trust account's purpose and authority, close accounts/sub-accounts if the Facility cannot determine the account's purpose or if the account is no longer needed and appropriately dispose of any remaining balances.

DHS response:

We concur. On April 16 and July 30, 2015, memos were sent to the Auditor-Controller Accounting Division requesting closure of the CARES Gift Shop and Federal Work Study trust funds, respectively. As of September 15, 2015, e-mails were sent to responsible Administrators requesting spending plans for nine (9) of the 17 inactive trust accounts totaling \$0.083 million. The following actions will be taken for the remaining eight (8) trust accounts: (a) Budget requests to utilize funds for critical Capital Asset needs will be submitted for three accounts totaling \$0.614 million; (b) Two accounts were closed; (c) A spending plan was identified for one account; (d) A memo to file will be generated for one undocumented account that is still needed; and (e) A request for a spending plan for the remaining account will be sent to the responsible Administrator by September 30, 2015.

Auditor-Controller Recommendation #2:

LAC+USC management develop spending plans for trust accounts that are still needed, ensure that trust accounts are used as intended and maintain documentation to support all transactions.

DHS response:

We concur. By September 30, 2015, e-mails will be sent to the responsible Administrators requesting spending plans for trust accounts that are still needed. Supporting documentation will be maintained for all transactions.

Auditor-Controller Recommendation #3:

LAC+USC management keep detailed subsidiary ledgers for all trust accounts and sub-accounts.

Follow-up Review Trust Accounts, Revolving Funds, Commitments & Accounts Payable –
LAC+USC Healthcare Network
Page 2 of 4

DHS response:

We concur. As staffing permits, subsidiary ledgers will be kept for all trust accounts and sub-accounts.

Auditor-Controller Recommendation #4:

LAC+USC management reconcile trust accounts/sub-accounts monthly/quarterly, as required, ensure that reconciliations are appropriately reviewed and approved, and that unreconciled differences are promptly investigated and resolved.

DHS response:

We concur. As staffing permits, trust accounts and sub-accounts will be prioritized, reconciled, reviewed and approved monthly/quarterly and unreconciled differences will be investigated and resolved.

Auditor-Controller Recommendation #5:

LAC+USC management ensure cashiers deposit patients' personal funds intact and that refunds are made from the revolving cash trust fund.

DHS response:

We concur. In FY 2014-15, the Patient's Personal Funds revolving cash trust fund was divided into two cash boxes for patient refunds. One to be used during the day shift, which is kept at the Inpatient Tower Cashier's Office and the other for the evening shift, which is kept at the Clinic Tower. Procedures will be developed to guide Cashier staff in the use of these revolving trust fund cash boxes including how to handle exceptions when patient personal fund refunds cannot be made solely from the cash boxes and patient personal funds must be used.

Auditor-Controller Recommendation #6:

LAC+USC management ensure that cashiers document the reasons for all voided transactions and obtain supervisory approval for voided receipts.

DHS response:

We concur. On September 1, 2015, LAC+USC management verbally reminded the Cashier Supervisors that all voided transactions must be documented and approved. A memo will be reissued to Cashier Supervisors and Cashiers to formally remind them of the proper procedures for voiding receipts.

Follow-up Review Trust Accounts, Revolving Funds, Commitments & Accounts Payable –
LAC+USC Healthcare Network
Page 3 of 4

Auditor-Controller Recommendation #7:

LAC+USC management transfer the \$30,400 in unclaimed funds to the Treasurer and Tax Collector (TTC), and periodically review the Patients' Personal Deposit trust account to identify and transfer additional unclaimed funds to TTC.

DHS response:

We concur. LAC+USC implemented this recommendation in September 2010.

Auditor-Controller Recommendation #8:

LAC+USC management periodically review all revolving funds and revolving cash trust funds and close funds that are no longer needed.

DHS response:

We concur. Revolving cash trust funds will be periodically reviewed and closed if the funds are no longer needed. On September 1, 2015, LAC+USC management began the process of closing a revolving checking account that is no longer needed.

Auditor-Controller Recommendation #9:

LAC+USC management ensure staff investigate and resolve the bank account reconciling items appropriately.

DHS response:

We concur. On August 31, 2015, LAC+USC management emailed Bank of America's customer service to stop payment on 39 outstanding checks totaling \$1,675.15. Expenditure Management will ensure reconciling items are reviewed quarterly, investigated and appropriately resolved as necessary.

Auditor-Controller Recommendation #10:

LAC+USC management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.

DHS response:

We concur. On September 15, 2015, LAC+USC Fiscal and Supply Chain Office staff were reinstructed on establishing and cancelling commitments and accounts payable and monitoring for compliance.

Follow-up Review Trust Accounts, Revolving Funds, Commitments & Accounts Payable --
LAC+USC Healthcare Network
Page 4 of 4

Auditor-Controller Recommendation #11:

LAC+USC management conduct Internal Control Certification Program (ICCP) reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

DHS response:

We concur. LAC+USC management will ensure that all responsible Managers are consistently made aware of the importance of accurately identifying assessable unit weaknesses, in accordance with the ICCP procedures, on ICCP responses. On July 23, 2009, a memo was sent to the LAC+USC Executive Staff emphasizing the need to properly identify weaknesses and implement controls timely. A memo will be issued to the Executive Staff and Responsible Managers in conjunction with the FY 2015-16 ICCP, and each review thereafter, stressing the importance of accurately identifying internal control weaknesses and implementing improvement plans timely.